

3766757

BNY SECURITIES LIMITED
(FORMERLY KNOWN AS BNY CLEARING SERVICES INTERNATIONAL LIMITED)

Report and Financial Statements

31 December 2002



BNY Securities Limited
(formerly known as BNY Clearing Services International Limited)

Registered No. 3766757

DIRECTORS

J Tessler (Chairman)
N Coleman (Finance Director)
F J LaSalla
R M Mastrangelo
B G Rogan
J D Slone
C H van der Merwe
J Velli

SECRETARY

BNY Secretaries (UK) Limited

AUDITORS

Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London
EC4A 1NH

PRINCIPAL OFFICE

South Quay Plaza
183 Marsh Wall
South Quay
London
E14 9SH

REGISTERED OFFICE

One Canada Square
London
E14 5AL

BNY Securities Limited
(formerly known as BNY Clearing Services International Limited)

DIRECTORS' REPORT

The Directors present their report, together with the audited financial statements of the Company for the year ended 31st December 2002 ('the year') which have been prepared in accordance with the provisions of the Companies Act 1985, as amended.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company during the year were the provision of clearing and settlement functions for its clients.

During the year the Company changed its name to its present name on 25th January 2002. On 31st January 2002 the Company increased its authorised share capital by US\$50,000,000 for the purpose of accommodating applications for the issuance of additional shares in the capital of the Company by its sole member BNY International Financing Corporation ('BNY IFC'). On 19th February 2002 the Directors approved an application by BNY IFC for 14,750,000 ordinary shares of US\$1 each at par, which were duly allotted fully paid. Additionally during the year the Directors secured a subordinated loan facility from BNY IFC on commercial terms.

The Directors have developed the Company's principal activity during the year through the acquisition of certain business assets and undertaking from Tilney Investment Management that complement and enhance the pre-existing clearing and settlement functionality. The terms and conditions of the acquisition were set out in a Sale and Purchase Agreement dated 20th June 2002. Since the year the transaction has been formally completed and the enhanced business functionality became operative on 20th January 2003.

Further developments of the Company's undertaking have been instigated during the course of the year. The Directors have developed business plans and management structures for the purpose of creating three distinct operating divisions, namely: Global Clearing, Capital Markets, and G-Trade. G-Trade is a continuance of the BNY ESI International Division of another group undertaking in the United Kingdom, The Bank of New York Capital Markets Limited, after re-branding that Division under the G-Trade global franchise. The Global Clearing Division will undertake the Company's existing principal activity. The Capital Markets Division will seek engagement as an underwriter of and a dealer in securities and as an investment adviser in respect of securities. The G-Trade Division will market and service three distinct product lines, namely Electronic, Block and Program Trading. The respective business commencement date for each of the new divisions will be decided during the first quarter of 2003.

All of the Company's undertaking for the time being, including the new business activities and enhancements, constitute regulated activities. Consequently during the year an application was lodged with the Financial Services Authority ('FSA') for the purpose of securing the requisite Regulatory authorities to undertake the activities. The application was subsequently approved by the FSA and a revised Scope of Permission Notice was received. In consequence of the receipt of the aforementioned approval from the FSA additional appointments to the Board of Directors have been made to manage the increased undertaking of the Company.

RESULTS

The results for the year are set out on page 7. The Directors have not paid and do not propose to recommend the payment of any dividends in respect of the year (2001: Nil).

DIRECTORS' REPORT

FUTURE DEVELOPMENTS

Since the year the Company has been developing the ability to offer an outsourcing capability to clients in respect of its clearing and settlement process. In this respect negotiations to enter into an outsourcing agreement with ING Bank N.V., acting through its London Office, relating particularly to its Model 'A' Equity processing, are at an advanced stage. It is intended that this opportunity will be developed in conjunction with the Company's intermediate parent, The Bank of New York, and other group subsidiaries in order to take full advantage of the available group product range.

Since the year end the Company's ultimate parent, The Bank of New York Company, Inc., has entered into an agreement to acquire various global undertakings constituting the 'Pershing Securities Clearing Business'.

This acquisition includes regulated undertakings incorporated in the United Kingdom. It is expected that the Directors will review the United Kingdom undertaking to be acquired to identify any opportunities that may arise to rationalise the Company's activities in order to take full advantage of any benefits that may be available.

Otherwise the Directors will keep the market under review to identify opportunities to form joint ventures, business alliances, outsourcing arrangements, and acquisitions that will further enhance and develop the Company's undertaking.

DIRECTORS AND THEIR INTERESTS

The names of the present Directors are shown on page 1.

During the year there were seven appointments to the Board and two departures. Mr N C Coleman, Mr R Mastrangelo, Mr V L Pacilio, Mr B G Rogan, Mr J D Slone, Mr J Tessler, and Mr J Velli were each appointed as an additional Director on 26th November 2002. Mr M Grana and Mr P C Wo each resigned as a Director of the Company on 22nd November 2002.

Since the year end there has been a further departure. Mr Pacilio resigned as a Director of the Company on 13th February 2003.

None of the Directors, nor any member of their respective families, had reported any material interests in contracts involving the Company, or interests in the share or loan capital of the ultimate holding company, or its subsidiaries, at the relevant dates which required disclosure.

SECRETARY

During the year BNY Secretaries (UK) Limited was appointed as an additional Secretary of the Company on 23 January 2002. Mr P C Wo resigned as a Secretary of the Company on 25 February 2002.

ULTIMATE HOLDING COMPANY

The Directors regard The Bank of New York Company, Inc., which is incorporated in the United States of America under the laws of the State of New York as the ultimate holding company.

DIRECTORS' REPORT

AUDITORS

On 14 February 2002 KPMG Audit Plc, Registered Auditor, resigned its appointment as the Company's auditor and delivered the requisite statutory statement pursuant to Section 394 Companies Act 1985, as amended, to the effect that there were no circumstances connected with their ceasing to hold office that should be brought to the attention of the Company's Member or its creditors.

Ernst & Young, LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, was appointed as Auditor of the Company and, having indicated their willingness to continue in office, was re-elected at the 2002 Annual General Meeting. Subsequently Ernst & Young, LLP, have again indicated their willingness to continue in office a Resolution for their re-appointment will be proposed at the forthcoming 2003 Annual General Meeting in accordance with the provisions of Section 385 of the Companies Act 1985, as amended.



Clifford J Morris
For and on behalf of BNY Secretaries (UK) Limited
Secretary
One Canada Square
London E14 5AL

28 March 2003

BNY Securities Limited
(formerly known as BNY Clearing Services International Limited)

DIRECTORS' REPORT

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that these financial statements comply with the aforementioned requirements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BNY SECURITIES LIMITED (Formerly BNY Clearing Services International Limited)

We have audited the Company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London
28 March 2003

BNY Securities Limited
(formerly known as BNY Clearing Services International Limited)

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2002

	<i>Notes</i>	<i>2002</i> <i>\$000</i>	<i>2001</i> <i>\$000</i>
Interest receivable and similar income arising from debt securities		225	—
Other interest receivable and similar income		28	38
Interest payable and similar charges	7	(237)	—
Net Interest Income		<u>16</u>	<u>38</u>
Fees and commissions receivable		2,197	1,709
TOTAL INCOME		<u>2,213</u>	<u>1,747</u>
Administrative expenses	2	3,692	1,819
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	<u>(1,479)</u>	<u>(72)</u>
Tax on loss on ordinary activities	4	466	—
RETAINED LOSS FOR THE YEAR		<u>(1,013)</u>	<u>(72)</u>
Profit and loss account brought forward		(52)	20
Profit and loss account carried forward		<u>(1,065)</u>	<u>(52)</u>

The Company has no recognised gains or losses other than those above and therefore no separate statement of total recognised gains and losses has been presented (2001 - \$nil).

There is no difference between the loss on ordinary activities before tax and the retained loss for the year stated above and their historical cost equivalents.

All items dealt with in arriving at the Company's result for the financial year relate to continuing operations.

The notes on pages 9 to 15 form part of these financial statements.

BNY Securities Limited
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BALANCE SHEET
at 31 December 2002

	<i>Notes</i>	<i>2002</i> \$000	<i>2001</i> \$000
FIXED ASSETS			
Intangible assets	8	503	—
Tangible assets	9	3,528	—
		<u>4,031</u>	<u>—</u>
CURRENT ASSETS			
Debtors	10	7,697	4,940
Cash at bank		44,207	2,179
Investments	11	3,988	—
		<u>55,892</u>	<u>7,119</u>
CREDITORS: amounts falling due within one year	12	37,238	6,171
NET CURRENT ASSETS		<u>18,654</u>	<u>948</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>22,685</u>	<u>948</u>
CREDITORS: amounts falling due after five years	13	8,000	—
NET ASSETS		<u>14,685</u>	<u>948</u>
CAPITAL AND RESERVES			
Called up share capital	14	15,750	1,000
Profit and loss account		(1,065)	(52)
SHAREHOLDERS' FUNDS		<u>14,685</u>	<u>948</u>

These financial statements were approved by the Board of Directors on 28 March 2003.

Signed on behalf of the Board of Directors



Director

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2002

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules and with the exception of notes 5 and 14, are presented in US dollars. The financial statements have been prepared in accordance with Schedule 4 of the Companies Act 1985.

Foreign exchange

Transactions denominated in currencies other than US dollars are translated into US dollars and recorded at the average rate of exchange ruling for the month in which the transaction occurred. Assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the exchange rates ruling on the balance sheet date. Differences arising from exchange rate movements are recognised in the profit and loss account.

Cash flow statement

Under Financial Reporting Standard 1 (revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that more than 90% of the voting rights are controlled within the group and a consolidated cash flow statement is included in the ultimate parent Company's financial statements which are publicly available.

Related party transactions

Under Financial Reporting Standard 8, the Company is exempt from the requirement to disclose related party transactions within the group on the grounds that more than 90% of the voting rights are controlled within the group and the consolidated financial statements of the ultimate parent Company are publicly available.

Interest and commission

Interest and commission, both income and expense, are treated on an accruals basis.

Taxation

Provision is made for taxation at current rates on the taxable profits or losses.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent periods.

Deferred tax is measured at a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Fees receivable

Fees receivable which represent a return for services provided are credited to income when the related service is performed.

BNY Securities Limited
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NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2002

1. ACCOUNTING POLICIES (continued)

Current asset investments

Current asset investments are recorded at the lower of cost and net realisable value.

Fixed assets and depreciation

Tangible fixed assets are depreciated on a straight-line basis over their expected useful economic lives, as follows:

Leasehold property and improvements	-	Over the period of the lease
Office fixtures and furniture	-	5 years
Computer hardware and software	-	4 years

Turnover

Turnover and cost of sales, as prescribed in the Companies Act 1985, do not have meaningful equivalents for the business of the Company and are not defined in these financial statements.

Pension scheme arrangements

Pension costs are charged to the profit and loss account in the period incurred by the Company.

Development costs

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project. Such expenditure is being amortised over a five year period commencing in the month that sales of the product are first made.

Operating leases

Rental costs under operating leases are charge to the profit and loss account in equal annual amounts over the period of the lease.

2. ADMINISTRATIVE EXPENSES

	2002	2001
	\$000	\$000
Staff costs		
- Salaries and wages	1,418	742
- Social security costs	83	82
- Other pension costs	117	39
Other administrative expenses	2,074	956
	<u>3,692</u>	<u>1,819</u>

The average number of persons working for the Company during the year was 15 (2001 - 7). These staff had contracts of service with another group undertaking. Staff costs and the average number of persons working for the Company are disclosed in the financial statements of the Company as the costs are reimbursed to the employing Company.

BNY Securities Limited
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NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2002

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The loss on ordinary activities before taxation is stated after charging:

	2002 \$000	2001 \$000
Auditors' remuneration - audit	17	30
- non-audit	102	60
	<u>119</u>	<u>90</u>

4. TAXATION ON LOSS ON ORDINARY ACTIVITIES

Taxation is based on the loss for the year and comprises:

	2002 \$000	2001 \$000
UK Corporation tax:		
- Current year group relief receivable at 30% (2001 - 30%)	442	-
- Prior year adjustment at 30% (2001 - 30%)	24	-
	<u>466</u>	<u>-</u>
Tax on ordinary activities	466	-

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 30% (2001 - 30%). The current tax credit for the year is less than 30% (2001 was less than 30%) for the reasons set out in the following reconciliation:

	2002 \$000	2001 \$000
Loss on ordinary activities before tax	1,479	72
	<u>444</u>	<u>22</u>
Tax on loss on ordinary activities at standard rate	444	22
Factors affecting change:		
Tax losses not Group relieved	-	(22)
Prior year Group relief	24	-
Disallowable expenses	(2)	-
	<u>466</u>	<u>-</u>
Current tax credit for year	466	-

5. DIRECTORS' EMOLUMENTS

Directors' emoluments, including benefits in kind, amounted to £189,991 (2001 - £172,667). The aggregate value of Company contributions to the defined contribution pension scheme in respect of Directors' qualifying services was £11,610 (2001- £8,586). One Director is accruing benefits in the defined contribution pension scheme in respect of qualifying services. The amounts were paid in sterling and have not been restated to US dollars.

6. PENSION COSTS

During the year ended 31 December 2002 staff working for BNY Securities Limited were members of The Bank of New York Pension Plan. This Plan is a defined contribution pension scheme. The assets of this scheme were held independently from those of the Company under a separately administered trust. The pension cost charge represents contributions paid initially by The Bank of New York to the trust on behalf of the 15 persons working for the Company (2001 - 10) and amounted to £64,195 (2001 - £30,337). No contributions were payable to the trust at the year-end.

BNY Securities Limited
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NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2002

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 \$000	2001 \$000
Bank loans and overdrafts	5	—
Amounts owed to group undertaking	232	—
	<u>237</u>	<u>—</u>

8. INTANGIBLE FIXED ASSETS

	<i>Development Expenditure \$000</i>
Cost:	
At 1 January 2002	—
Additions	503
At 31 December 2002	<u>503</u>
Amortisation:	
At 1 January 2002	—
Charge for the year	—
At 31 December 2002	<u>—</u>
Net book value at 31 December 2002	503
Net book value at 31 December 2001	<u>—</u>

Development expenditure has been incurred in respect of certain business assets acquired during the year in relation to Tilney Investment Management. These costs are being amortised over a period of five years from 20 January 2003.

BNY Securities Limited
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NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2002

9. TANGIBLE FIXED ASSETS

	<i>Short-term leasehold property and improvements \$000</i>	<i>Office fixtures and furniture \$000</i>	<i>Computer hardware and software \$000</i>	<i>Total \$000</i>
Cost:				
At 1 January 2002	—	—	—	—
Additions	501	152	2,875	3,528
Disposals	—	—	—	—
At 31 December 2002	501	152	2,875	3,528
Depreciation:				
At 1 January 2002	—	—	—	—
Charge for the year	—	—	—	—
Disposals and write offs	—	—	—	—
At 31 December 2002	—	—	—	—
Net book amount:				
At 31 December 2002	501	152	2,875	3,528
At 31 December 2001	—	—	—	—

Fixed assets have been acquired in respect of certain businesses, for which activities are scheduled to commence during 2003.

10. DEBTORS

	<i>2002 \$000</i>	<i>2001 \$000</i>
Trade debtors	6,851	4,331
Amounts owed by group and fellow subsidiary undertakings	305	608
Group relief receivable	466	—
Prepayments and accrued income recoverable within one year	75	1
	7,697	4,940

11. INVESTMENTS

Treasury bills are of short-term maturity and their market value is not materially different from carrying value.

BNY Securities Limited
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NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2002

12. CREDITORS: amounts falling due within one year

	2002 \$000	2001 \$000
Bank overdraft	4,079	2,630
Trade creditors	26,789	2,251
Other taxes and social security costs	—	20
Other creditors and accruals	6,370	1,270
	<u>37,238</u>	<u>6,171</u>
Creditors include:		
Amount due to group undertakings	<u>24,545</u>	<u>891</u>

13. CREDITORS: amounts falling due after more than five years

	2002 \$000	2001 \$000
Subordinated loan from group undertaking	8,000	—

The Company has an \$8 million subordinated loan, falling due not less than five years after either party gives notice. Interest on the loan is payable at a rate of LIBOR plus 1.5% p.a. on a quarterly basis in arrears.

Claims in respect of the Company's loan capital are subordinated to the claims of other creditors. None of the Company's loan capital is secured.

14. CALLED UP SHARE CAPITAL

	2002 £	2001 £
Authorised:		
Ordinary shares of £1 each	1,000	1,000
	<u> </u>	<u> </u>
	\$	\$
Ordinary shares of \$1 each	51,000,000	1,000,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid:		
Ordinary shares of £1 each	3	3
Ordinary shares of \$1 each	15,750,000	1,000,000
	<u>15,750,003</u>	<u>1,000,003</u>

During the year the authorised share capital was increased by \$50,000,000 by the creation of 50,000,000 ordinary shares of \$1 each. On 19th February 2002 the Directors approved an application by BNY IFC for 14,750,000 ordinary shares of \$1 each which were duly allotted fully paid.

The £ and \$ ordinary shares are separate classes of shares but rank pari passu in all respects.

BNY Securities Limited
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NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2002

15. PROFIT AND LOSS ACCOUNT

	2002 \$000	2001 \$000
At 1 January	(52)	20
Retained loss for the year	(1,013)	(72)
At 31 December	(1,065)	(52)

16. RECONCILIATION OF EQUITY SHAREHOLDERS' FUNDS

	2002 \$000	2001 \$000
Equity shareholders' funds at 1 January	948	1,020
Issues of shares on 19 February	14,750	—
Loss on ordinary activities after taxation for the year	(1,013)	(72)
Equity shareholders' funds at 31 December	14,685	948

17. COMMITMENTS

Annual commitments under non-cancellable operating leases is as follows:

	Land and buildings 2002 \$000	Land and buildings 2001 \$000
Operating lease which expire:		
Within one year	—	—
In two to five years	—	—
In over five years	2,941	—

18. POST BALANCE SHEET EVENTS

On 20 January 2003, the Company completed the acquisition of certain business assets and undertaking from Tilney Investment Management.

Since the year the Company has been developing the ability to offer an outsourcing capability to clients in respect of its clearing and settlement process. In this respect negotiations to enter into an outsourcing agreement with ING Bank N.V., acting through its London Office, relating particularly to its Model 'A' Equity processing, are at an advanced stage. It is intended that this opportunity will be developed in conjunction with the Company's intermediate parent, The Bank of New York, and other group subsidiaries in order to take full advantage of the available group product range.

19. ULTIMATE PARENT COMPANY

The Company is a subsidiary of BNY International Financing Corporation, a company incorporated in United States of America. The smallest group into which the Company is consolidated is that of BNY International Financing Corporation. The ultimate parent company is The Bank of New York Company, Inc., a company incorporated in the United States of America. The largest group into which the results of the Company are consolidated is that headed by The Bank of New York Company, Inc. Copies of the group financial statements of The Bank of New York Company, Inc., are available from The Bank of New York, One Canada Square, London E14 5AL.